

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT FILING)
OF B.T.U. GAS COMPANY, INC.) CASE NO. 2012-00076

ORDER

On October 31, 2011, in Case No. 2011-00374,¹ the Commission approved a Gas Cost Recovery ("GCR") clause for B.T.U. Gas Company ("BTU") providing for the quarterly adjustment of BTU's rates to reflect its most current wholesale gas supply cost.

On March 2, 2012, BTU filed its GCR to be effective April 1, 2012. Along with its GCR Application, BTU filed a Petition for Waiver of GCR Adjustment. In its application, BTU requested an interim waiver of the five percent limit for lost gas costs and a deviation from its GCR tariff and the filing requirements of the GCR tariff because its proposed rate is not calculated based on actual gas costs and adjustments. BTU's proposal is to continue to charge its GCR rate of \$8.00 per Mcf which was approved in Case No. 2011-00512² effective January 9, 2012, and to delay recovery of gas cost

¹ Case No. 2011-00374, Filing of B.T.U. Gas Company, Inc. for Approval of a Gas Cost Recovery Tariff (Ky. PSC Oct. 31, 2011).

² Case No. 2011-00512, Application of Kentucky Frontier Gas, LLC as Bankruptcy Operator of B.T.U. Gas Company for Approval of an Interim Adjustment of the Gas Cost Adjustment Tariff (Ky. PSC Jan. 3, 2012).

losses for November and December 2011, which would ordinarily occur through the Actual Adjustment ("AA").

In support of its request for waiver of the five percent limit on gas cost losses, BTU's application provided information concerning the continuation of an "inordinately high" rate of Lost & Unaccounted for gas. According to BTU's application, its operator, Kentucky Frontier Gas, LLC ("Kentucky Frontier"), has identified numerous entities taking unmetered gas, as well as several illicit and unmetered connections with other pipelines. Kentucky Frontier states that it has installed meters on previously unmetered individuals taking gas off the BTU system, and now has agreements with most to start paying for their service. It reports that it has spent hundreds of man-hours in finding and eliminating "foreign" and improper interconnections, two of which are the subject of Case No. 2012-00028.³ Kentucky Frontier estimates that the BTU system is still receiving 50 to 100 percent more gas from producers than it is selling to metered customers. Despite the fact that it expects losses to decline during the quarter beginning April 1, 2012, it estimates the losses will remain in the 30 to 50 percent range, well over the five percent ordinarily flowed through the GCR mechanism.

With its GCR application, BTU provided a sample calculation of its Expected Gas Cost ("EGC") which includes 60 percent line loss, which would produce an EGC of \$13.8996. For informational purposes, BTU also provided an AA calculation of \$4.6490 per Mcf, based on \$52,050 in under-recoveries of gas cost for November and

³ Case No. 2012-00028, Application of Kentucky Frontier Gas Company, LLC as Bankruptcy Operator of B.T.U. Company vs. Harry Thompson, Thompson Energy et al., and Other Unknown Entities, filed Jan. 18, 2012.

December 2011. Information provided in BTU's AA indicates gas losses of 62 percent in November and 54 percent in December.

BTU states that, due to the waiver of the exclusion of gas losses over five percent which was approved by the Commission in Case No. 2011-00512, its gas cost recovery for January and February was approximately equal to purchased gas cost, and it expects the same results for March. The \$8.00 gas cost approved in that case and requested again in this proceeding is \$3.4141 higher than the \$4.5859 actual weighted average cost of gas indicated in BTU's EGC calculation. BTU provided calculations showing projected gas cost losses of \$25,421 for the quarter beginning April 1, 2012 if its rates were based on an EGC of \$4.50 per Mcf. It is, therefore, proposing to deviate from the GCR tariff in its calculation and from the filing requirements of its GCR to continue its \$8.00 GCR rate for the quarter beginning April 1, 2012.

Having reviewed the record in this case and being otherwise sufficiently advised, the Commission finds that:

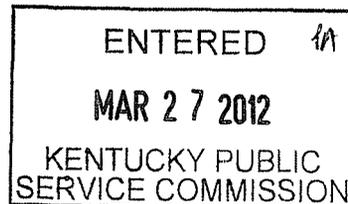
1. BTU's request for a deviation from its GCR tariff in continuing its \$8.00 per Mcf gas cost rate is not unreasonable given the extreme nature of the BTU system's continuing losses and Kentucky Frontier's efforts to install meters for previously unmetered individuals and to locate improper interconnections with the BTU system. Any future request for deviation from BTU's GCR tariff should include information concerning Kentucky Frontier's efforts to decrease the incidence of gas loss on the BTU system.

2. BTU's GCR, as approved herein, is \$8.0000 per Mcf, which is no change from its previous gas cost rate.

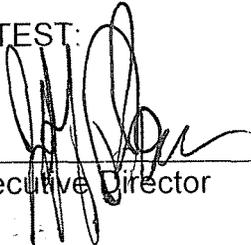
IT IS THEREFORE ORDERED that:

1. BTU shall be granted an interim waiver from its tariff of the five percent limit for lost gas costs.
2. BTU shall be granted a deviation from its GCR tariff and its filing requirements as they pertain to the calculation of the gas cost rate and use of the AA.
3. In any future request for similar deviations, BTU shall include sufficient information for the Commission to determine its progress in addressing excessive gas losses.
4. BTU's GCR shall remain \$8.0000 per Mcf.

By the Commission



ATTEST:



Executive Director

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